

Mpact Limited
(Incorporated in the Republic of South Africa)
(Company registration number 2004/025229/06)
Income tax number: 9003862175
JSE Share Code: MPT JSE ISIN: ZAE 000156501
("Mpact" or "the Group" or "the Company")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

SALIENT FEATURES FROM CONTINUING OPERATIONS

- Underlying operating profit increased by 21.5% to R387 million (June 2021: R319 million)
- Underlying earnings per share up 28% to 138.9 cents (June 2021: 108.5 cents)
- Return on Capital Employed (ROCE) improved to 18.0% (June 2021: 15.4%)
- Interim dividend declared of 40 cents per share (June 2021: nil cents per share)

OVERVIEW

Mpact has reported improved trading for the six-months ended 30 June 2022 on the back of strong local demand for both containerboard and cartonboard as well as good growth in new product sales. Higher selling prices implemented at the end of 2021 helped to mitigate sharply escalating input costs.

Trading was mixed across the rest of the business, with good sales volume growth in the quick service restaurant (QSR), beverage and home delivery sectors, partly offset by declines in other fast-moving consumer goods (FMCG) sectors as well as fruit packaging.

Fruit packaging has been impacted by the uncertainty arising from the sanctions related to the Russia-Ukraine conflict, as fruit producers have delayed decisions on harvesting and packaging of some products until they are able to establish which markets to service and how. Their operations were impacted by a number of factors including port constraints in South Africa and adverse weather in some regions.

Macroeconomic uncertainties and persistent global supply chain constraints continued to impact business and the cost and availability of most raw materials and new capital equipment. Where possible, we increased raw material inventory to mitigate long lead times and periods of uncertainty.

Despite these external challenges, there has been meaningful progress on the implementation of our strategy. This includes a number of capital investments for future growth. Delays in the manufacturing and shipping of capital equipment for a number of projects, ordered mainly from Europe and Asia, have negatively impacted some completion dates. We have however, contained project costs to within the approved budgets, with a few exceptions related to exchange rate movements and the abovementioned delays.

In addition to these global challenges, we have successfully navigated the lingering effects of last year's unrest in KwaZulu-Natal (KZN), the recent floods in KZN, drought in the Eastern Cape, unprecedented load shedding and other municipal service interruptions countrywide.

Mpact Operations (Pty) Ltd, our main trading entity in South Africa, retained its level 1 B-BBEE rating.

FINANCIAL REVIEW

Group revenue for the six months increased by 5.2% to R5.7 billion compared to the prior period with sales volumes decreasing by 1%. The Baywhite distribution agreement with Mondi terminated at the end of December 2021, with only inventory clearing sales of Baywhite taking place during the period. Group revenue excluding Baywhite increased by 13.0% and sale volumes by 6.3%.

Underlying operating profit (EBIT) increased by 21.5% to R387.1 million (June 2021: R318.7 million) mainly attributable to strong domestic demand in the Paper business, partly offset by lower sales volumes in the Plastics business, and higher input costs.

Paper business

Revenue of R4.9 billion was 5.9% higher than the prior period (June 2021: R4.6 billion), with sales volumes decreasing by approximately 1% due to lower Baywhite sales. Excluding Baywhite, Paper segment revenue increased 15.3% and external sales volumes increased 7.4%.

Strong domestic containerboard demand led to a favourable sales mix variance when compared to the prior period as we reduced exports to service the domestic market.

In Paper Converting, consumer demand increased compared to the prior period, resulting in improved sales volumes in the industrial and QSR sectors. Additionally, strong growth was experienced in new product sales, albeit off a low base, as a result of sustained demand in home delivery and courier paper bags and Freshpact® punnets and trays. This was partially offset by lower sales in the fruit sector as producers delayed orders as a result of supply chain and market uncertainties arising from port constraints in South Africa and sanctions against Russia.

Underlying operating profit of R457.6 million was up 31.8% as a result of improved trading. The segmental result includes the final settlement amounts Mpact received from the insurers relating to the Springs municipal electricity supply interruption in 2020 of R47 million (June 2021: R25 million) and R5 million of direct costs relating to the floods in KZN.

Plastics business

Revenue in the Plastics business increased by 1.2% to R848.6 million. Sales volumes declined by 6.4% as a result of lower sales in Bins and Crates operations, while FMCG operations were in line with the prior period and Preform and Closures operations were up marginally.

Production of bins and crates was lower than the prior period as a result of delays in the arrival of new equipment

from overseas, and in part due to operational issues, impacting sales. This equipment was required to offset the planned relocation of existing equipment between plants as part of the establishment of the new Castleview factory in Gauteng. Additionally, bin sales to the fruit sector declined for the same reasons as in Paper Converting.

FMCG operations were affected by seven days of downtime at the Pinetown factory attributable to the floods in KZN.

Underlying operating profit decreased to R3.5 million (June 2021: R40.5 million) due to lower sales volumes and the costs associated with the KZN floods of R11.6 million which are included in the current period results while the insurance claims are being finalised by the insurers.

Net finance costs

Net finance costs of R81.8 million (June 2021: R67.9 million) increased by 20.5% compared to the prior period due to higher average net debt over the period.

Earnings per share

Headline earnings per share increased 31.1% to 142.0 cents (June 2021: 108.3 cents) while basic and underlying basic earnings per share increased 28.0% to 138.9 cents (June 2021: 108.5 cents).

Net debt

Net debt increased to R2,206 million (December 2021: R1,765 million) mainly as a result of investments in capital projects and working capital cash outflows, which were both anticipated. Mpact has recently renewed its committed debt facilities at improved margins.

DISCONTINUED OPERATION

As reported in the 31 December 2021 results, the plastic trays and films business, Mpact Versapak, is anticipated to be sold as a going concern, and as such Mpact's Group results include separate disclosures in the financial statements for discontinued operations and assets and liabilities held-for-sale.

For the six-months ended 30 June 2022, Versapak reported revenue of R509.9 million (June 2021: R427.9 million), and net earnings of R27.8 million (June 2021: R18.2 million), which equates to basic earnings per share of 19.3 cents (June 2021: 12.3 cents). Versapak's net asset value as at 30 June 2022 was R337.3 million (June 2021: R201.5 million).

The Company is in discussions with potential buyers for the business.

OUTLOOK

Mpact is expected to continue to benefit from strong domestic containerboard and cartonboard demand, with all paper machines fully booked to the end of the current annual supply agreements, being end September. Current indications suggest that the supply and demand balance will remain tight for the foreseeable future. Input costs, however, have continued to escalate since the end of June 2022, putting further pressure on margins. Discussions are underway with Paper customers regarding selling price increases to be implemented in October 2022. The Felixton paper mill project, which aims to increase recycled containerboard capacity by an additional 16,000 tons per annum, is on schedule to be completed in 2023, and further paper mill projects are under consideration.

Margins in the Paper Converting business will be under pressure due to the substantial containerboard cost increases expected in the last quarter, which may not be fully recovered in selling prices. Various projects to increase Mpact's corrugated capabilities to service the growing export fruit sector, and in particular citrus, are expected to be completed by the end of 2024.

The Citrus Growers Association is still forecasting growth in citrus export volumes from South Africa for the full year of 2022 when compared to the prior period, notwithstanding a decline in the first half of the year. If this materialises, we expect to benefit in both the Paper Converting and Plastic Bins and Crates businesses.

The Plastics division will benefit from the consolidation of the two preform and closures factories in Wadeville during Q3 and an improvement in the Bins and Crates business is anticipated. The new plastic crate recycling facility in Brits and the development of the new Castleview factory are also expected to contribute more meaningfully during the second half of the year.

While we anticipate the continued negative impact from ongoing global supply chain constraints; market uncertainty arising from the Russia-Ukraine conflict and its effect on the costs of energy and food; and the current cycle of monetary policy tightening globally, Mpact will continue to invest to meet customers' requirements and extend our innovative product offering.

Importantly, several of our products are targeted at sectors which are expected to grow in the foreseeable future, and are partly shielded from South African consumer spending patterns. These include fruit exports, convenience shopping, recycling and waste management.

In the face of continued macroeconomic uncertainty, the focus of the Mpact management team remains on the value-enhancing strategy of the business aimed at optimising our portfolio and growing organically and through acquisition. This strategy has enabled the business to report stronger earnings as the company continues to innovate and evolve into new, higher margin product areas, creating tangible returns for all shareholders.

Mpact's integrated business model is uniquely focused on closing the loop in paper and packaging, positioning the Group to benefit from the ongoing drive towards a circular economy by brand owners, manufacturers and governments alike.

DIVIDENDS

The Board has resolved to declare an interim gross cash dividend of 40 cents for the six-months ended 30 June 2022

(32 cents net of dividend withholding tax) per ordinary share (June 2021: nil per ordinary share). A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt. The dividend has been declared from income reserves.

The Company's total number of issued ordinary shares at the date of this announcement is 148 175 363. Mpact's income tax reference number is 9003862175.

Salient dates for the cash dividend distribution

	2022
Publication of dividend declaration	Monday, 8 August
Last day of trade to receive a dividend	Tuesday, 30 August
Shares commence trading "ex" dividend	Wednesday, 31 August
Record date	Friday, 2 September
Payment date	Monday, 5 September

All times provided are South African local times. The above dates and times are subject to change. Any material change will be announced on the SENS.

Share certificates may not be dematerialised or re-materialised between Wednesday, 31 August 2022 and Friday, 2 September 2022, both days inclusive.

BOARD CHANGES

Effective 2 June 2022, Ms. Ntombi Langa-Royds retired by rotation as an Independent Non-Executive Director of Mpact, Chairman of the Social and Ethics and Remuneration Committees and as member of the Nomination Committee. The Board would like to thank Ms Langa-Royds for her valuable contribution, dedication and commitment to the Company during her tenure.

Mr Sibusiso Luthuli, an Independent Non-Executive director of the Board, has been appointed as the Chairman of the Remuneration Committee effective from 2 June 2022.

Ms Maya Makanjee, an Independent Non-Executive director of the Board, has been appointed as the Chairman of the Social and Ethics Committee effective from 2 June 2022.

Financial summary from continuing operations

R'million	Six months ended 30 June 2022	Six months ended 30 June 2021	Change
Revenue	5,743	5,459	5.2%
Underlying operating profit(1)	387	319	21.5%
Underlying profit before tax(2)	311	252	23.6%
Net debt	2,206	1,465	50.6%
Return on capital employed (%)	18.0	15.4	2.6
Interim gross dividend per share (cents)	40.0	0.0	-
Basic earnings per share (cents)	138.9	108.5	28.0%
Basic underlying earnings per share (cents)	138.9	108.5	28.0%
Basic headline earnings per share (cents)	142.0	108.3	31.1%

(1) Underlying operating profit is the Group operating profit before special items.

(2) Underlying profit before tax is the Group profit before tax and before special items.

This short-form announcement is the responsibility of the directors and is only a summary of the information contained in the full unaudited announcement. Any investment decision should be based on the full unaudited announcement which is available on our website <https://www.mpact.co.za/investor-relations/financial-results/2022/HY2022.pdf>, and on <https://senspdf.jse.co.za/documents/2022/JSE/ISSE/MPT/HY2022.pdf>

The financial information on which the outlook statement is based has not been reviewed and reported on by Mpact's external auditors.

The full unaudited announcement is also available at Mpact's registered office at no charge during office hours and may be requested by emailing: DDickson@Mpact.co.za.

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

8 August 2022

COMPANY PROFILE

Mpact is the largest paper and plastics packaging and recycling business in Africa with customers that include packaging converters, fruit producers and FMCG companies. Mpact's integrated business model is uniquely focused on closing the loop in plastic and paper packaging through recycling and beneficiation of recyclables.

As at 30 June 2022, Mpact employed 5,106 people (June 2021: 5,153 people) and had 45 operating sites, 22 of which are manufacturing operations, located in South Africa, Namibia and Mozambique. Sales in South Africa account for approximately 89% of Mpact's total revenue for the current period while the balance was predominantly to customers in the rest of Africa.

DIRECTORS

Independent Non-Executive:
AJ Phillips (Chairman), NP Dongwana, PCS Luthuli, M Makanjee, TDA Ross and DG Wilson

Executive:

BW Strong (Chief Executive Officer), BDV Clark (Chief Financial Officer)

Company secretary:
DM Dickson

Registered office:
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Deloitte & Touche
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